

Options for Reducing Export Subsidies

From a global perspective, agricultural export subsidies have smaller impacts than tariffs or domestic subsidies, accounting for 13 percent of world agricultural price distortions due to farm support policies. Export subsidies are nevertheless an important pillar of the reforms. Many countries' tariffs and domestic support policies contribute to distorted global markets; however, the global effects of export subsidies are mostly attributable to a single region, the EU. Export subsidies have significant impacts on trade in some markets and create increased competition that strains trade relationships. And, export subsidy reforms can have significant indirect effects because they help to set the stage for reforms in other areas. Constraints on export subsidies that are used to help dispose of surplus production can create pressures to restructure domestic subsidies in ways that are less distorting of production and trade. In negotiations, export subsidies are directly linked to tariffs because their reduction or elimination may encourage some countries to lower their import barriers.

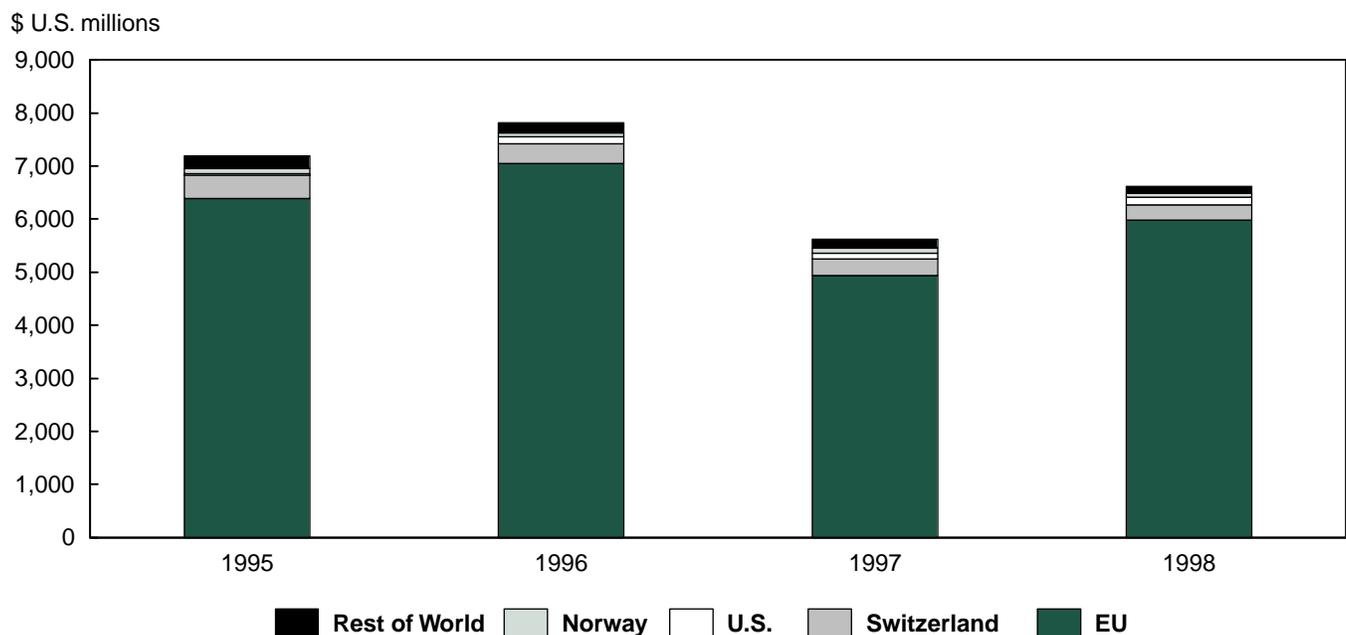
A detailed analysis of the EU shows that when the links between export subsidies and domestic market

price support are accounted for, EU export subsidies have significant effects on world markets and on U.S. production and trade of some commodities. Our analysis focuses on the EU because in 1998 it accounted for over 90 percent of the world's export subsidies (fig. 3). Switzerland accounted for 4.4 percent, the U.S. accounted for 2.2 percent, and all other countries accounted for about 3 percent of global export subsidies. From 1995 to 1998, the EU provided export subsidies on most agricultural exports, including nearly all of its exports of coarse grains, butter and butter oil, beef, and skim milk powder. The commodities included in this analysis are wheat, barley, corn, other coarse grains, oilseeds and their products, beef, pork, and poultry. (Dairy is not included in the model, mainly because dairy quotas in the EU limit any potential change in the sector.) These commodities account for just over 50 percent of EU expenditures on export subsidies (not accounting for subsidy expenditures on incorporated/processed products) and roughly 75 percent of the volume of subsidized exports.

In our analysis, the EU is assumed to adapt to export subsidy elimination on grains, oilseeds, and livestock by lowering its domestic intervention prices and reducing its exportable supply. This action will lead to

Figure 3

Export subsidy expenditure by country, 1995-98



Source: Leetmaa (2001).

changes in the relative rates of subsidies among crops. The Common Agricultural Policy (CAP), the EU domestic farm program, provides a common price for all grains. Given world grain prices, this common price implies relatively high subsidies on barley and other coarse grains compared to wheat. Oilseed prices are not supported, although grain, oilseeds, and livestock producers all receive direct payments. This domestic price structure has encouraged barley and coarse grain production. Domestic reforms linked to export subsidy elimination will change this relative pricing and lead to a shift in production back to wheat. Lower feed prices will partially offset a major contraction in the EU livestock sector when export subsidies are removed.

The impact of EU export subsidy elimination on world prices would be felt most in the wheat and livestock sectors. In the case of wheat, the world price would decline due to increased EU production and exports. Conversely, world livestock prices would increase as EU exports decline. The expansion of EU wheat production and exports will create increased competition with U.S. wheat, while U.S. production and exports of other grains and meats, and exports of soybeans, will expand (table 15). (EU imports are assumed fixed at minimum access levels, although import barriers would undoubtedly decline if export subsidies and intervention prices were reduced.)

Even if it fully eliminates export subsidies, the EU will still be able to competitively export grains and oilseeds, and some pork and poultry, but will continue to be uncompetitive in exports of beef. However, the EU beef industry could restructure in order to enter into the world's higher quality beef trade. Dairy, wine,

horticulture, and some other commodities that benefit from EU subsidies are not included in the analysis.

Approaches to Reforming Export Subsidies: Value Versus Volume Constraints

The URAA approached the reform of export subsidies by placing restrictions on both the volume and the value of subsidized exports. Targeting both components creates effective constraints in times of both high and low prices. When prices are low, both the value and the volume limits act as constraints. Volume limits help to prevent the disposal of excess supply onto export markets, in an effort to raise low domestic prices. Value limits become more binding as prices fall because the subsidy (the difference between the high internal support price and the declining world price) becomes larger. When world prices are high, the value constraint becomes less binding but the volume constraint can still set some limit on export subsidies. Both value and volume limits help to emphasize the link between export subsidies and fixed internal price support programs, since constrained export subsidies can now only partially offset the effects of falling world prices.

In 1995-96, when world prices were high, the EU was constrained more by its volume limits than its value limits. As world prices fell beginning in 1997, the EU's subsidy expenditures and value of subsidized exports increased. Through 1998, the volume limits were more binding on EU exports than value limits, with the exceptions of sugar, processed fruits and vegetables, tobacco, and alcohol. In 1998, the U.S. provided export subsidies on dairy and poultry meats, with dairy reaching 90 percent of U.S. volume limits.

Table 15—EU export subsidy elimination and domestic reforms: Effects on EU and U.S. production and exports

Commodity	EU		U.S.	
	Production	Exports	Production	Exports
<i>Percent change from baseline volume in 2007/8</i>				
Wheat	.01	19.5	-1.3	-5.5
Corn	Na	Na	0.4	0.6
Barley	-3.2	-32.7	Na	Na
Soybeans	Na	Na	-0.1	0.02
Rapeseed	0.4	-5.5	Na	Na
Beef	-1.7	-100	1.2	5.7
Pork	-4.2	-44	0.5	3.1
Poultry	-4.8	-29.8	0.4	1.1

Na = not applicable.
Source: Leetmaa (2001).